NABE Policy Survey

October 7, 1988

Business Economists Expect George Bush to be Elected President; Prefer Bush's Economic Policies

This report presents the results of a survey on economic policy issues made by a panel of nearly 300 business economists in mid-September. The Economic Policy Survey *is one of three surveys taken during each calendar quarter by NABE; the other surveys are the* Industrial Outlook *(normally taken during the 3rd month of the quarter) and the* Macroeconomic Forecast *(taken immediately after the Commerce Department's preliminary NIPA estimates are released in the 1st month of the quarter). This* Economic Policy Survey *was timed to coincide with the NABE Annual Meeting in Pittsburgh at the end of September.*

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The September 1988 policy questions focused upon the expected outcome of the November elections--and the possible policy shifts in Washington that will follow.

President George Bush?

A surprisingly lopsided 53 percent of NABE's sizable public affairs panel (nearly 300 economists responding) expect George Bush to be elected as the next president, compared with only 36.6 percent for Michael Dukakis. (The remaining 10.5 percent were undecided.)

By an even wider margin of 61 percent to 22 percent, NABE's panel said George Bush's economic policy proposals "would be better for maintaining stable growth and moderate inflation in the years ahead." Only 17 percent said there was no real difference between the candidates' policies, which, given the relative absence of discussion to date in the campaign on budget-policy and other issues, is a rather low number.

Budget Policy Has the Highest Priority

The panel was asked about economic policies and priorities in the next Administration, and NABE's traditional conservatism on budget policies and moderate activism elsewhere were again demonstrated. The survey results showed that, by far, the NABE members feel the highest priority is to make convincing, real, and significant progress during the next 4 years on reduction of the Federal budget deficits. (We pointedly did not attempt to quantify the desired amount of deficit-reduction that members would desire.)

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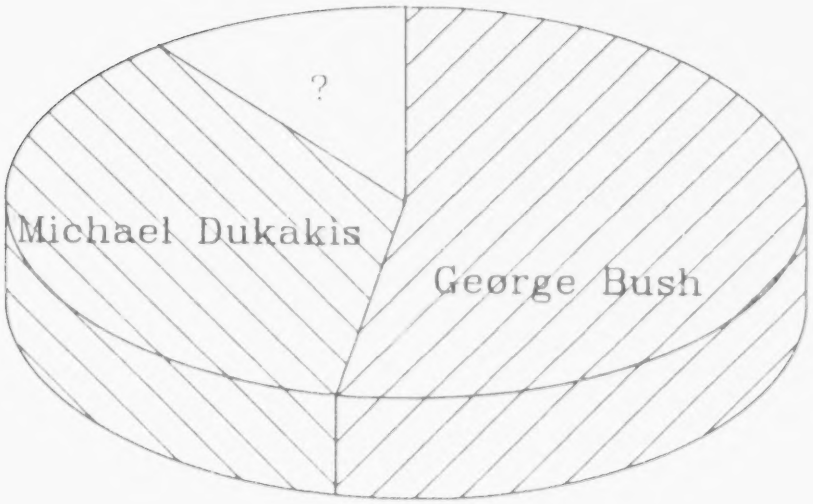
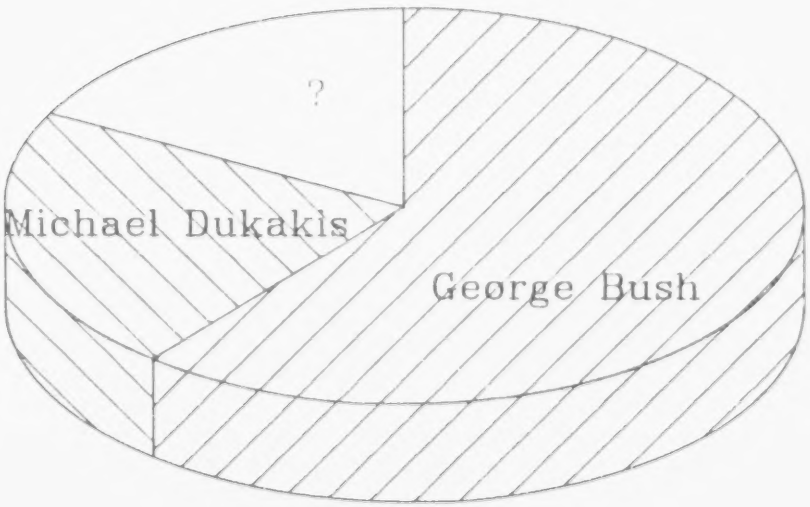
The Next President?



Whose Economic Policy Proposals are Better?



Economic Policy Priorities for the Next Administration

(in Descending Rank Order of Priority)

Policy	Weighted Score*
Budget Deficit-Reduction	*4.262*
Complete FTA with Canada	*3.982*
Launch policies to speed up Productivity Growth	*3.712*
Launch policies to Boost Personal Savings	*3.570*
Launch policies to Stimulate Business Investment	*3.547*
Pursue the Uruguay Round of the GATT Negotiations	*3.482*
Reform Glass-Steagall laws and related rules to permit bank entry into other financial industries	*2.831*
Reform Securities Laws & Rules so as prevent another market crash	*2.570*
Increase Anti-Trust Enforcement	*2.509*
Discourage Corporate Debt Accumulation	*2.478*
Curb Hostile Takeovers	*2.229*

* Based upon responses ranging from 1 = Unimportant to 5 = High Priority.

While deficit-reduction is given the most importance by NABE members, there is little confidence that it will in fact be accomplished by the next Administration and Congress. By a 3-to-1 margin, the members said there would *not* be a major budget package legislated during 1989.

The panel felt there would be no great difference (51 percent of the respondents) between a Bush and a Dukakis Administration as to whether a budget package would be adopted. Out of the remaining one-half, a slight plurality (28.5 percent, *versus* 20 percent) suggested Governor Dukakis would be more likely to succeed in adopting a budget package. This probably reflected the assumption that the Democrats are likely to maintain--perhaps even to increase--their majorities in both the House and the Senate irrespective of the outcome of the presidential contest. Presumably, Dukakis would fare somewhat better in working out a budget compromise with the Congressional leadership in his own party.

The Gramm-Rudman-Hollings "deficit-reduction" process has little remaining credibility, in the view of the NABE panel. Barring an accord between the White House and the Congress in 1989, only 30 percent of the panel said the GRH process would actually force the government to make expenditure cuts. Forty-eight percent said the GRH defict targets would effectively be ignored, though the law would remain on the books. The remaining 22 percent thought the GRH law would (again) be amended or repealed if budget negotiations broke down and sequester orders were threatened.

Budget-Package Scorecard

(Composite Scores are based upon responses ranging from 1=Highly Undesirable to 5=Highly Important, in Rank Order of "Economic Merit")

Budget Initiative	Economic Merit Composite Score	Political Feasibility Composite Score
Limit Agricultural Outlays	*4.22*	*2.11*
Cap COLAs in Entitlements	*3.91*	*1.88*
Cut Civilian-Gov't Payrolls	*3.69*	*2.58*
Hike cigarette & alcohol excise taxes	*3.65*	*3.89*
Cut S.D.I. spending	*3.59*	*3.58*
Cut other Pentagon procurement	*3.54*	*3.44*
Across-the-board Nondefense cuts	*3.39*	*2.52*
Cut Medicare Outlays	*3.37*	*1.62*
Raise Gasoline tax 20-30c/gallon	*3.34*	*2.70*
Institute a VAT	*3.30*	*2.41*
Cut Military Payrolls	*3.04*	*2.60*
Tax capital gains at death	*2.97*	*2.80*
Hike tax on Social Security benefits	*2.95*	*1.86*
Limit deduction for bus. meals & entertainment	*2.95*	*3.51*
Tax fringe benefits	*2.92*	*2.43*
Tax all consumer energy prod/services	*2.88*	*2.38*
Re-institute Oil-import fee	*2.84*	*3.13*
Limit mortgage-interest deduction	*2.82*	*1.74*
Impose Personal Income Tax Surcharge	*2.49*	*2.55*
Limit state/local tax deductions	*2.48*	*2.01*
Cut Military R&D	*2.47*	*3.18*
Cut Pentagon Operations/Maint.	*2.26*	*2.86*
Hike corporate tax rates	*2.22*	*3.46*

The bipartisan National Economic Commission, which is currently scheduled to make its recommendations around year-end, is viewed positively. (NABE members are decidedly more optimistic about the NEC efforts than the usual budget process in Washington.) Twenty-two percent of the NABE panel believe the NEC's suggestions are likely to influence the development of a plan. Another 41 percent think the NEC's role is more likely to push Congress and the Administration to act, rather than to affect the actual plan (though the arithmetic suggests Congress and the President will then drop the football).

We asked several generalized questions about the "best combination" of ingredients in a credible budget package--in the unlikely event, by our panel's own judgment, such a package is adopted. Seventy percent said the package should consist "entirely" or "mainly" of cuts in government spending programs. Another 21 percent said the package should have a balance of spending cuts and tax increases. Only 9 percent said there should "mainly" be tax increases. Just one person wanted to boost taxes (only).

When asked the "companion" question on what ingredients the Congress and President would be likely to put in a budget package, the results were greatly different from the preferences of the NABE panel. Only 25 percent thought Washington would be able to focus primarily upon reductions in Federal outlays; more than 70 percent thought we'd be much more likely to pay

higher taxes. Before panic sets in, though, remember that 75 percent of the panel expects no budget package to be developed next year.

Seventy percent of the panel thought the Federal Reserve would accommodate a real-world budget package. About one-quarter of the panel said the Fed should ease monetary policy when budget legislation is enacted, and one-half said the easing should occur when the provisions actually take effect (presumably, when the "fiscal drag" occurs). The other one-quarter thought the Fed should sit tight and alter monetary policy when and if the economic indicators warrant it.

If the NABE panel's pessimism on Washington's budget (in)action is correct, one-quarter of the panel thought the Fed would have to "tighten more than would normally be required" in 1989. Three-quarters of the panel believed the Fed should simply follow its usual procedures for conducting monetary policy--no special tightening should be performed.

Monetary Policy

At the beginning of the questionnaire's section on monetary policy, a table of money supply growth rates and Fed growth-rate targets was presented. Actual growth has been roughly in the middle of the Fed's target range. A series of questions was then asked about the panel's assessment of monetary policy. By 56-44 percent, the panel thought that recent money growth rates do provide a good measure of the thrust of monetary policy. Seventy-one percent felt that monetary policy was now "about right." Perhaps surprising, 23 percent believed policy was still *too stimulative*; only 6 percent felt the Fed had gone too far toward restraint.

About two-thirds of the panel expect that the Federal Reserve's conduct of monetary policy during the next 6 months will be chiefly guided by the rate of inflation and inflation expectations. Thirty percent felt the general pace of economic growth would be the chief guide. Over 3 percent believed the international value of the dollar would most influence policy. Less than 1 percent believed the growth rate of the money supply would provide the main guide.

By a lop-sided 74 percent, the panel thought that interest rates are headed higher during the next 6 months. (This verdict came in mid-September, following the sharp August run-up in interest rates, including the early-August hike in the Fed's discount rate.) Nearly one-half the panel thinks the Fed will raise the discount rate at least once during this period as part of a series of tightening moves. Another 28 percent expect the Fed to tighten reserve availability and encourage market rates to rise but will stop short of raising the discount rate (this <u>is</u> an election year). Twenty-two percent think the Fed will be able to remain "neutral" at current high levels. Only 4 percent think interest rates are headed down.

The overwhelming majority of the panel believes that the independence of the Federal Reserve will be preserved by both Messrs. Bush and Dukakis.

LDC Status and Policies

During the past year, we have regularly asked the Policy Panel for their perception of changes in the debt status of the less-developed countries during the past three months.

Changes in LDC Debt Status

	Nov. 1987	Feb. 1988	May 1988	Sept. 1988
Responses of the NABE Panel (in Percent):				
Improved Debt Position	*10.0*	*13.9*	*13.1*	*22.6*
No Significant Change	*48.6*	*49.5*	*56.1*	*53.8*
Worsened Debt Position	*24.8*	*26.3*	*13.1*	*23.5*

In the next several years, the panel thinks a more vigorous approach should be taken to work on the continuing LDC debt problems. While one-third believes current debt-management and economic policies should be continued, another 27 percent feel that more innovative financing techniques (*e.g,* the Mexican debt swaps done in March 1988) should be added to the list of the options. Nine percent believe the U.S. Government should assist the private-sector efforts with a partial forgiveness of the loans. One-quarter of the panel thinks *all the above* approaches should be undertaken. The NABE members believe the outcome of the presidential elections in the U.S. will probably lead to a continuation of Government policy--and attitudes of Bush and Dukakis toward the LDC debt problem are likely to be similar.

Why the Rebound in the Dollar?

Our two panels were asked a series of questions about the outlook in 1989 for the dollar, as well as why has it rebounded during the past 6 months? Most of the NABE Policy Panel members expect the dollar to remain around current levels through year-end 1988, which are some 9 percent above the December 1987 average. Only 1 percent expect a further, strong appreciation. More than one-third of the NABE members think the dollar has some downside risk, however, with 31 percent expecting the dollar to slide back to year-end 1987 levels, and 6 percent think the dollar will hit new lows.

For 1989, most of the panel members expect the dollar's 1985-87 downtrend to resume. One-quarter of the panel thinks the dollar may rise slightly further (up 5 to 15 percent), but about 55 percent believe the dollar will slip next year, with a large 32 percent expecting the currency to drop by 5 to 15 percent beyond year-end 1988 levels.

Reasons for the Dollar's Rebound

Responses of the NABE Panel (in Percent):

Factor:	Large Impact	Small Impact	None or Perverse Impact
Higher interest rates in U.S.	*63.4*	*34.8*	*1.8*
Improvement in the trade deficit	*47.7*	*45.2*	*7.1*
Strong real economic growth rates in U.S. compared with others	*44.4*	*38.3*	*17.3*
Increased Japanese purchases of U.S. securities	*27.7*	*48.3*	*24.0*
Confidence in G-7 currency management	*8.7*	*45.6*	*45.6*
Signs that U.S. would enact Trade Bill	*4.2*	*36.0*	*59.8*

Based upon data in the accompanying table on "Reasons for the Dollar's Rebound," NABE members give considerable weight to 3 factors to explain this summer's exchange-rate movements: higher U.S. interest rates, a noticeable turnaround in the merchandise trade deficit, and strong first-half 1988 real growth rates in the U.S. (especially in comparison with the slowing economies in Japan and most of Europe). The major step-up in net U.S. securities purchases by long-term institutional investors in Japan--probably to a new record, surpassing even the 1986 pace--is regarded as a major factor by only 28 percent of the panel. About one-half think the increased pace of securities' purchases is of small importance.

Just under one-half of the panel thinks the Group-of-Seven finance ministers and central bank heads can take credit for boosting the dollar through improved currency management actions and policies.

Interestingly, about 60 percent of the panel believe that the prospects for enactment of the Trade Bill this summer had a *perverse* impact on the value of the dollar. That is, without the passage of the Trade Bill, the dollar might have bounced up to still higher levels. This response by the panel is consistent with NABE's long-standing, free-market posture in trade policy matters.

Reducing Budget Deficits:

Economic 'Merit' vs. Political 'Feasibility'